Reform of Financial Institutions in Québec

Québec

REFORM OF FINANCIAL INSTITUTIONS IN QUÉBEC:

Objectives, guiding principles and action plan

Associate Minister for Finance
and Privatization

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Regulated financial institutions incorporated in Québec hold total assets worth more than $44 billion. This places Québec well ahead of other provinces in this regard.

However, what distinguishes Québec's financial sector even more than its size is its originality and vitality. These qualities make it a crucial instrument for Québec's economic development and an important component of Canada's financial system.

Our financial sector is, from many points of view, a remarkable demonstration of Quebecers' economic genius. This is attributable to the energy of the owners and managers of these institutions as well as to consistently innovative financial legislation.

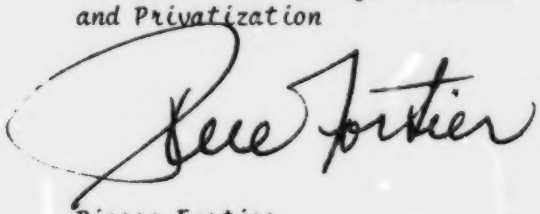
A few years ago, Québec was the first provincial jurisdiction in Canada to begin decompartmentalizing financial institutions. This positive action by Québec and, subsequently, certain unfortunate events which shook the Canadian financial system, contributed to expanding the potential scope of the reform under consideration by the federal government and by the governments of the other provinces, notably by the Ontario government. The federal government's Green Paper, released in the spring of 1985, triggered a public debate on the future of the country's financial system. Since then, several federal-provincial meetings have been held involving ministers or government officials during which Québec has put forward its views on reforming the regulatory structure of financial institutions.

At this stage, it is important for Québec to make known publicly and clearly the objectives and guiding principles underlying its action in the coming years. Moreover, while the

federal government is far from reaching a consensus with the provinces and industry on its legislative intentions, it is of primary importance for Québec to indicate the general orientation it will be giving its financial institutions to enable them to meet the challenges of international competition, the internationalization of markets on a global scale and increased interaction with the rest of the world. Policies must be implemented that will continue to encourage the expansion of businesses in Québec, while at the same time, by taking advantage of our legislation, attracting other institutions to our province.

The Québec government does not intend to impose a preconceived model for development on its financial institutions. Rather, we favour a climate of openness and flexibility with principles and objectives which will both respond to current market realities and enable Québec's financial institutions to adjust to the realities of tomorrow.

Associate Minister for Finance
and Privatization



Pierre Fortier

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INTRODUCTION

Québec's financial sector includes almost two thousand corporations active in a variety of fields from banking to mutual fund management as well as financing services of all kinds, including venture capital. The largest of these institutions are active in the so-called regulated sectors of credit unions (caisses d'épargne et de crédit), trust companies, insurance companies and the securities business.

In Canada, studies have been conducted for several years on the rules and standards to which institutions carrying on any of these activities are subject. In 1984, Québec revised its Act respecting insurance. Since then, several reports, policy statements, bills and draft regulations have been produced, especially by Ontario and the federal government.

The process of decompartmentalization involves changing the separation of functions which was instituted during the previous century to deal with specific needs such as financing for industry and trade, trust administration and insurance protection. Each institutional sector continue to be regulated by specific legislation, but from now on, part of its activities may overlap with activities of another type of institution.

There are many reasons behind decompartmentalization, such as economic and technological changes, the internationalization of capital markets and new customer requirements.

The stakes involved in this process are significant for the development of financial markets, but they also represent major challenges to governments to ensure the public is protected.

That is why we, in Québec, felt it was essential to devise an appropriate administrative control structure before moving ahead with decompartmentalization as such. This was accomplished with the reform of the securities legislation in 1982, the creation of the position of Inspector General of Financial Institutions in 1983, and the reform of the legislation governing insurance in 1984.

Over the past few months, mindful of these factors and aware of the importance of the province's financial sector in Québec's economic development, the government has intensified its efforts to define new bench marks and guiding principles to help achieve these objectives. It is now time to make public its position regarding the rules which will govern credit unions and trust and loan companies incorporated under Québec law.

Since the regulations governing investment dealers already allow them to be subsidiaries of other financial institutions, we will not be dealing here with rules and regulations applicable to them. However, this document will outline Québec's strategy in the discussions currently being held between the federal government and the other provinces concerning the regulation of federally chartered institutions doing business in sectors under provincial jurisdiction.

At one time, deposit-taking institutions relied on a network of branches to deliver their services, while insurance companies and investment dealers, along with their regional offices, depended on a specialized sales force. Circumstances are changing, and different categories of financial institutions

want to make use of common networks to deliver their services, so the regulations governing intermediaries must also be reconsidered.

This document will therefore focus on the rules which will govern financial institutions incorporated in Québec and intermediaries. The historical development of the securities industry will also be examined. The document is divided into four parts:

- the first part is descriptive. It provides an overview of the situation of financial institutions in Québec and of recent developments affecting them;

- the second part examines the tensions and changes in the financial sector;

- the third part presents the objectives and guiding principles that will form the framework for the reform of financial institutions in Québec;

- the fourth part describes the proposed action plan for each of the financial sectors: savings and credit unions, trust and loan companies, insurance companies, financial intermediaries and investment dealers.

PART I

1- Institutions incorporated under Québec laws

The relative weight, in their respective markets, of financial institutions incorporated under Québec law is very significant if we limit our consideration to Québec. When we extend our consideration to Canada as a whole, however, this relative weight becomes much less significant. The reason is that, with but few exceptions, the activities of Québec-chartered financial institutions are heavily concentrated in Québec. On the other hand, this feature provides a measure of flexibility in choosing objectives and policy methods in their regard.

- Deposit-taking institutions

Deposit-taking institutions under Québec jurisdiction include credit unions, sociétés d'entraide économique, trust companies and one loan company. The credit union sector includes 1 372 caisses populaires and 12 federations, of which 11 are members of the Confédération des caisses populaires et d'économie Desjardins. The twelfth is the Fédération des caisses d'établissement du Québec, with seven caisses. Finally, there is one independent caisse, the Mutuellistes, whose assets total $9.7 million.

The 1 364 caisses in the Mouvement Desjardins and their 11 federations, totalling more than $23.6 billion in assets, form the largest group in this sector in Canada, accounting for almost half the assets in the sector. Through their federations, the caisses control several insurance companies, trust companies, and investment and loan corporations in Québec. Total assets held by this large financial movement are now at the $30 billion level.

Deposits Received in Québec

(millions of $)

	1981		1986	
	$	%	$	%
Institutions chartered in Québec				
Credit unions	12 081.4	25.2	23 742.9	33.4
Trust and loan companies	4 765.3	9.9	9 163.5	12.9
Sociétés d'entraide	287.3	0.6	484.3	0.7
Sub-total	17 134.0	35.7	33 390.7	47.0
Other deposit-taking institutions				
Chartered banks	27 967.0	58.4	32 106.0	45.2
Savings banks	1 796.0	3.7	3 270.2	4.6
Trust and loan companies	1 008.3	2.2	2 228.7	3.2
Sub-total	30 771.3	64.3	37 604.9	53.0
TOTAL	**47 905.3**	**100.0**	**70 995.6**	**100.0**

SOURCE: Inspector General of Financial Institutions
Bureau de la statistique du Québec

As for the seven caisses of the Fédération des caisses d'établissement, they hold total assets of $250 million.

The Savings and Credit Unions Act does not allow a credit union incorporated in Québec to operate in another province. The inverse is also true, so that there is no competition in this sector between institutions incorporated in Québec and those incorporated elsewhere. Only the Caisse centrale Desjardins, with assets approaching $2.4 billion, is authorized to conduct business outside Québec.

The sociétés d'entraide économique include four companies, whose assets in 1986 totalled $596 million. They were formerly savings and credit unions, but were converted into joint stock companies following a liquidity crisis in June 1981. The decisions taken to resolve the situation and the subsequent mergers reduced total assets and the number of institutions. However, the situation has since been stabilized. The applicable legislation does not allow new corporations to be formed. The activities of these institutions are restricted to Québec.

There are 16 Québec-chartered trust companies, 10 of which hold a permit issued by the Régie de l'assurance-dépôts du Québec authorizing them to receive deposits. Their assets total $12.5 billion, and they administer assets in trust for a total value of $51 billion. Some of these companies are quite large, comparing favourably with other trust companies in Canada. However, since the Royal Trust and Montréal Trust reorganizations of the late 1970s, only one of these companies has significant direct activities outside Québec.

Commercial Loans Made in Québec by Deposit-Taking Institutions

(millions of $)

	1981		1986	
	$	%	$	%
Institutions chartered in Québec				
Credit unions	599.2	5.0	3 150.7	21.9
Trust and loan companies	70.3	0.6	190.8	1.3
Sociétés d'entraide	27.1	0.3	15.8	0.1
Sub-total	696.6	5.9	3 357.3	23.3
Other deposit-taking institutions				
Chartered banks	11 096.0	93.8	10 839.0	75.2
Savings banks	9.7	0.1	147.0	1.0
Trust and loan companies	20.0	0.2	74.3	0.5
Sub-total	11 125.7	94.1	11 060.3	76.7
TOTAL	**11 822.3**	**100.0**	**14 417.6**	**100.0**

SOURCE: Inspector General of Financial Institutions
Bureau de la statistique du Québec

Mortgage Loans Made in Québec by Deposit-Taking Institutions

(millions of $)

	1981		1986	
	$	%	$	%
Institutions chartered in Québec				
Credit unions	6 652.2	39.9	11 739.0	42.0
Trust and loan companies	2 790.2	16.7	5 424.8	19.4
Sociétés d'entraide	984.7	5.9	383.2	1.4
Sub-total	10 427.1	62.5	17 547.0	62.8
Other deposit-taking institutions				
Chartered banks	4 923.0	29.5	8 179.0	29.3
Savings banks	905.7	5.4	1 120.7	4.0
Trust and loan companies	424.1	2.6	1 103.0	3.9
Sub-total	6 252.8	37.5	10 402.7	37.2
TOTAL	**16 679.9**	**100.0**	**27 949.7**	**100.0**

SOURCE: Inspector General of Financial Institutions
Bureau de la statistique du Québec

The present Trust Companies Act allows companies incorporated outside Québec to register in the province. At December 31, 1986, 18 companies were registered and were doing business in Québec. Of these, fifteen are authorized to accept deposits. Fourteen of the eighteen companies are chartered federally, and four are chartered in a province other than Québec. However, the amount of business these companies do in Québec is limited. Almost 83% of deposits accepted by trust companies in Québec in 1986 were accepted by companies chartered in the province.

Since Crédit foncier (and Société de fiducie du Crédit foncier) merged with Montréal Trust, there is only one loan company in Québec, which is incorporated under the Companies Act. Until now, Québec did not have an umbrella statute for such companies which are, however, subject to the Deposit Insurance Act. Two other companies became Schedule B[1] banks when the federal government opened this door in 1980. On the other hand, 15 federally chartered loan companies do business in Québec, seven of which are subsidiaries of banks.

Deposit-taking institutions chartered in Québec compete with trust and loan companies incorporated outside Québec in the same way as banks which are under federal regulation. Québec-chartered institutions are estimated to account for approximately 47% of all deposits accepted in Québec, and this share

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1. Schedule A banks are widely held Canadian corporations. Schedule B banks have a small number of shareholders. For the most part, they are subsidiaries of foreign banks.

is growing steadily from year to year. Of this share, 72% is attributable to Mouvement Desjardins credit unions and federations.

- **Insurance**

In the life and health insurance sector, 15 mutuals and stock companies are incorporated in Québec, not to mention 17 mutual benefit associations and 6 funeral insurance companies. Some of these companies are quite large by Canadian standards, in particular Industrial-Alliance, which resulted from a merger in January 1987, and Laurentian Life.

The Act respecting insurance authorizes registration of companies and associations formed by other authorities in Canada and outside the country. At December 31, 1986, 157 insurers had availed themselves of this privilege. Competition is very keen in the life and health insurance market, which is dominated by federally chartered companies. Nonetheless, insurers chartered in Québec collected 20.9% of direct premiums written by all life and health insurers. If federally chartered insurers whose head offices are in Québec are included, this proportion rises to 36.0%.

The general insurance sector includes 21 stock companies and mutuals incorporated under Québec's laws. This does not include 46 mutual insurance associations. Under the Act respecting insurance, companies chartered outside Québec can register to carry on business. General insurance companies chartered in Québec accounted for 24.4% of direct premiums written in 1986; this proportion rises to 39.0% when federally chartered insurers having their head offices in Québec are included.

Premiums Collected in Québec and in Canada by Life and Health Insurers Doing Business in Québec in 1986

(millions of $ and %)

	In Québec		In Canada		Québec/ Canada
	$	%	$	%	%
Insurers*					
Head office in Québec					
Québec charter	864	20.9	930	5.9	92.8
Federal charter	628	15.1	668	4.2	94.2
Sub-total	1 492	36.0	1 598	10.1	93.4
Other insurers					
Chartered in another province	32	0.8	164	1.1	19.5
Federal charter	1 953	47.2	11 648	74.0	16.8
Foreign charter	662	16.0	2 322	14.8	28.5
Sub-total	2 647	64.0	14 134	89.9	18.7
TOTAL	**4 139**	**100.0**	**15 732**	**100.0**	**26.3**

* Companies and mutual associations

SOURCE: Inspector General of Financial Institutions

Premiums Collected in Québec and in Canada by General Insurers Doing Business in Québec in 1986

(millions of $ and %)

	In Québec		In Canada		Québec/ Canada
	$	%	$	%	%
Insurers*					
Head office in Québec					
Québec Charter	740	24.4	754	7.1	98.1
Federal charter	441	14.6	715	6.7	61.7
Sub-total	1 181	39.0	1 469	13.8	80.4
Other insurers					
Chartered in another province	118	3.9	483	4.6	24.4
Federal charter	1 153	38.1	5 995	56.5	19.2
Foreign charter	576	19.0	2 668	25.1	21.6
Sub-total	1 847	61.0	9 146	86.2	20.2
TOTAL	**3 028**	**100.0**	**10 615**	**100.0**	**28.5**

* General insurance companies and mutual associations

SOURCE: Inspector General of Financial Institutions

Like deposit-taking institutions, the direct business of Québec insurance companies is heavily concentrated in the province. For instance, life and health insurers chartered in Québec do 7.5% of their business outside the province (1% for general insurance companies), and account for less than 1% of the market in the other provinces. These figures do not account for the general insurance networks controlled by Québec-chartered companies.

Over the years, insurance companies have played and continue to play a major economic role in Canada and Québec. However, their influence has been significantly affected by the increasing concentration of Canadians' assets in other financial institutions. Whereas, in 1967, insurance companies held 24.4% of all Canadian financial institution assets, in 1986, their share had fallen to 15.2%.

Although the relative importance of insurers in the financial markets was formerly much greater that it is today, it is still significant, since insurers are the second-largest financial group, after deposit-taking institutions.

In terms of assets, federally chartered insurers dominate compared to insurers chartered in a foreign country and insurers chartered in Québec. Ownership by Québec-based interests is relatively low in this field at the Canadian level. However, it fulfills an extremely important role within the province.

Over the past few years, the insurance sector has changed significantly. This is mainly due to the recent trough in the

general insurance business cycle, caused by intense competition, surplus capacity, a savage price war, unheard-of liability insurance damage awards and modifications in social values that have brought about major changes.

The main feature of the life and health insurance sector has been the arrival on the market of new products to stem the outflow of assets from insurance companies, caused by the replacement of insurance contracts featuring low rates of return on accumulated cash values compared to record rates available on investments with other financial institutions. Insurance companies have had to contend with fierce competition and have had to innovate to maintain market share and profitability.

Finally, some other features of Québec-based financial institutions deserve to be highlighted. These include the major role played by credit unions in the deposit-taking sector, and by mutual associations in the insurance sector. This gives Québec's financial sector its distinctive quality and undisputed leadership in these fields.

As mentioned above, direct activities of Québec financial institutions outside the province are limited in scope. However, General Trust of Canada owns a federally chartered subsidiary which operates mainly in Ontario, and the Laurentian Group Corporation does business throughout Canada, in a large part of the United States and in a few other foreign countries.

Finally, institutions chartered in Québec and those chartered federally or in other provinces are becoming increasingly

linked by ownership ties and networks so that many financial conglomerates include both federal and provincial institutions. The Mouvement Desjardins and the Laurentian Group belong to this category, while institutions like Royal Trust and Montréal Trust belong to conglomerates mainly made up of federally chartered institutions. This deprives Québec of some of the flexibility it could otherwise have concerning objectives and policy methods in regard to its own institutions.

2- The securities market

- Investment dealers

As of March 1987, 178 investment dealers were registered with the Commission des valeurs mobilières du Québec, a significant increase over the 104 registered in March 1984. Of the total of 178, 59 are unrestricted practice dealers, while 119 are restricted practice dealers, compared with 47 and 57 respectively in 1984. The number of restricted practice dealers has grown much faster than the number of unrestricted practice dealers.

A system for gathering statistical data from investment dealers was implemented in Québec in late 1986. At present, we only have statistical data on the capital of dealers registered in Québec for a sample of members of the IDAC (Investment Dealers Association of Canada). On a Canada-wide basis, using partial data representing almost 90% of dealers that are members of stock exchanges or the IDAC, capital has increased substantially, from $602 million in 1984 to $1.4 billion in 1987. The

increase for dealers registered in Québec is less marked, about 90%. However, when compared on the basis of where control is held, dealers controlled in Québec have increased their capital at a faster rate than those controlled in other provinces and outside Canada. From 1984 to 1986, their capital has grown by 130%, compared with 84% for dealers controlled outside Québec.

This increase in the capital of dealers controlled in Québec has been encouraged, notably, by the QSSP (Québec Stock Savings Plan). Between 1984 and 1986, six dealers collected about $80 million, or almost 10% of total capital in 1986, through investments made under the QSSP.

In some respects, business activity for dealers established in Québec has grown more vigorously than for dealers in the rest of Canada. For a sample representing nearly 70% of dealers members of either a stock exchange or the IDAC, the number of offices of dealers established in Québec rose by 16% over the period 1983-1986, compared with 4% for Canada as a whole. These dealers also increased their staff by 40% over the same period, while staff levels among dealers established in Ontario remained stable.

- **The secondary securities market**

Over the past few years, activity on the Montréal Exchange has grown vigorously. The value of transactions negotiated on the Montréal Stock Exchange has risen from over $5 billion in 1983 to almost $16 billion in 1986. Its share of the value of shares traded compared with the Canadian market has almost doubled from 10% in 1980 to 19% in 1986.

This recovery can be at least partially attributed to the implementation in 1983 of the MOORE system, which gives participants the best price in Canada for transactions of 500 shares or less, as well as to specialists who give the Montréal market greater liquidity. Furthermore, the Québec Stock Savings Plan appears to have had a hand in the Montréal Exchange's recovery. In 1986, trading volume in shares of corporations which had issued an initial public offering qualifying under the QSSP accounted for 19% of total volume on the Montréal Exchange.

Value of Transactions in Québec and Canada

(millions of $)

	Québec		Canada		Québec/Canada	
	1983	1986	1983	1986	1983	1986
Stock market	5 089	15 983	37 934	84 628	13.4 %	18.9 %
Options market	117	210	706	657	16.6 %	32.0 %
Bond market[1]	15 000e	54 000e	111 722	284 910	13.0 %	19.0 %
Money market[2]	66 000e	162 000e	509 027	851 450	13.0 %	19.0 %

1. Securities with a term of at least one year.

2. Securities maturing within the year.

e. Estimate using the same ratio as for the stock market.

SOURCES: Investment Dealers Association of Canada
Commission des valeurs mobilières du Québec

The Montréal Exchange's share of the options market (for contracts negotiated in Canada) has risen sharply, from 16.6% to 32% between 1983 and 1986. Its renewed strength on the Canadian market is attributable to its vitality in the options market and to the distribution, in 1983, by Canadian stock exchanges, of the options market into exclusive shares.

The bond and money markets are major components of the overall securities market in Québec. Although these markets are heavily institutionalized, a significant proportion of transactions are attributable to individuals, particularly for bonds. Assuming the same distribution in Canada as for the stock market, the value of bonds traded in Québec is three times greater than the value of trades on the floor of the Montréal Stock Exchange.

The remarkable upsurge in the number of Quebecers who own stocks is another clear indication of the growing importance of the securities sector in Québec. Thus, according to surveys conducted by the Commission des valeurs mobilières du Québec, over the past few years, the proportion of Quebecers who own stock has risen by almost 100%, from 7.5% in 1983 to 14% in 1987. One out of seven Quebecers owns common or preferred shares listed on a stock exchange or traded over the counter. If holders of units of mutual fund stock are included, the percentage of Quebecers holding stocks rises to 16%.

In sum, certain financial institutions in Québec are assuming an increasingly important role, but at the same time, they are faced with increased competition given the globalization of markets.

PART II

1- General issues

Over the past few years, Canada's financial sector, like its United States counterpart, has been faced with its most severe crisis in 50 years. At the same time, it underwent basic transformations which will require regulatory adaptations.

The problems facing Canada's financial sector go back to 1973, the time of the first oil price shock. From that point on, the economy was to undergo a series of events which, taken individually or cumulatively, were to lead to severe difficulties for a number of financial institutions and account for the failure of several of them.

Rising oil prices, the ensuing widespread inflation, the need to recycle petro-dollars, the step of investment in oil-producing regions and countries and the even higher rates of inflation in these regions, or the developing countries' search for more rapid growth made financial institutions eager, in retrospect too eager, to satisfy the credit demands of the market of the day.

There followed the second oil price shock in 1979 and the interest rate spiral of 1980 and 1981. The latter event alone created problems for institutions which had not learned from the first jump in interest rates in 1974. During this period of rising interest rates, most financial institutions sought to improve the term structure of their assets and liabilities, in particular by reducing the terms of their loans. Those institutions which failed to do so were to experience a profit squeeze, particularly in 1981-1982.

Then came the recession, with falling prices for natural resources, and persistent problems plaguing the agricultural sector. More developed regions recovered first, but stagnation persisted in certain regions and countries, including many developing countries. Arrears on loans started building, more loans became non-performing and loan losses began to mount. Institutions' profits were to suffer according to their exposure to these poorer risks, and a number became insolvent.

A large number of insurers, trust and loan companies and banks in Canada were either merged or liquidated. These same economic developments and poor business practices were to cause many credit unions to require financial assistance while the banking system in many American states was strained by over-exposure to farm, oil and real estate loans. At the international level, the debt problem in developing countries still awaits a final solution and is having a serious effect on the profits of the major Canadian and foreign banks.

The situation in Québec was less serious. Apart from a few problems with certain credit unions which were absorbed in 1981 in the Mouvement Desjardins, thanks to assistance from the Régie de l'assurance-dépôts, and the liquidation of Le Prêt Hypothécaire Inc. in 1982, the only significant incident was the liquidity crisis which hit the caisses d'entraide économique in 1981.

These caisses, already having difficulty matching their maturities, which prevented them from earning a competitive return on their shares, were unable to satisfy the demand for redemption of these shares in June 1981. Member caisses were then faced

with two choices: some joined the Mouvement Desjardins and were subsequently merged with other credit unions, while others were converted, under special legislation, into joint stock companies. For the most part, they were able to weather the recession and cover their commitments. Only six of the companies were liquidated because of insolvency. Québec, then, has emerged in relatively good shape from the period of instability and our financial system is in relatively good health compared to the situation in Ontario and some other provinces.

2- Changes in the financial sector

During this period of instability and extreme volatility, affecting interest and exchange rates in particular, the pace of change in the financial sector continued to accelerate, straining the regulatory structure of these institutions from more than one standpoint. Seven (7) aspects of these changes are analyzed below.

- The internationalization of markets

A key factor of this development is the growing internationalization of financial markets and capital, which forces national markets to compete more intensely and enables large borrowers and investors to take advantage of favourable credit conditions about by changes in exchange rates, interest rates and stock market returns. As a result of this internationalization process, foreign firms are setting up in each country in increasing numbers, through acquisitions, associations or the incorporation of subsidiaries.

This phenomenon is having a basic impact on the competitive situation of domestic financial institutions. Canadian and Québec firms must respond to the arrival of these gigantic firms which have gained their expertise on highly specialized international markets by themselves innovating, or risk being pushed from the market. By the same token, the regulatory system itself is under pressure: it must adjust to the systems of other countries to enable the domestic financial sector to adapt.

Talks on free trade in financial services, within the general context of bilateral trade negotiations between Canada and the United States, show signs that this phenomenon will intensify. Québec's financial sector will, as a result, become increasingly integrated with world financial markets.

- **Increasing use of securities issues**

A second aspect of the changing financial services industry is the ever increasing use of securities issues in place of traditional debt issues. Between 1983 and 1986, the value of common and subordinate stock issues placed in Canada rose by more than 75% while in Québec, under the impetus of the Québec Stock Savings Plan, the increase was 160%. The rapid growth in the price/earnings ratio over this period encouraged companies to turn to issues of common stock rather than other securities, although the value of preferred share issues rose significantly as well.

The result of this trend has been a lower demand for credit from the banks. At the same time, trust companies and insurance

companies were given an opportunity to develop indirect commercial credit activities by acquiring such securities often issued as private placements.

Another result has been the issue of securities by lending institutions backed by loan portfolios. This phenomenon, commonly known as securitization, is still in its early stages in Canada, where only a few banks and trust companies have issued "mortgage securities" secured by residential mortgage loans. However, the practice has existed in the United States for twenty years, and for some years now has been applied to sectors other than mortgages. It is still too early to measure all the regulatory implications; however, if this type of instrument becomes widespread, the role of the various financial intermediaries will, in the long term, necessarily be affected.

- **Significant growth of mutual funds**

A third aspect of the changes in the financial sector is the incredible growth in the amounts invested by the public in mutual funds, together with the creation of mutual funds with a wide variety of objectives. From 1983 to 1986, the value of securities issued in Canada by members of the Mutual Fund Institute of Canada (accounting for 80% of the volume of securities issued in the country) has more than quadrupled, from almost $2 billion to $8.7 billion. It is reasonable to expect that growth in the value of mutual fund securities issued in Québec has been at least as dramatic. This growth reflects a long-term trend observed in several industrialized countries. At the same time, specialized funds, with specific investment objectives, have been introduced to the market:

Placements by prospectus

(millions of $)

	Québec		Canada [3]		Growth	
	1983	1986	1983	1986	Québec	Canada
Mutual funds [1]	396e	1 740e	1 980	8 700	340 %	340 %
Other companies:						
Common and subordinate stock [2]	924	2 399	5 000	8 870	160 %	77 %
Preferred stock [2]	346	755	1 342	4 442	118 %	230 %
Debt securities [2]	250	394	3 961	4 344	58 %	10 %

1. Members of the Mutual Fund Institute of Canada. They represent about 80% of the value of placements in Canada.

2. Includes placements in the form of units.

3. A small proportion may have been placed outside the country.

e. Estimate based on a Québec/Canada ratio of 20%.

SOURCES: Investment Dealers Association of Canada
Commission des valeurs mobilières du Québec
Mutual Fund Institute of Canada

international funds, precious metal funds, stock exchange index funds, money market funds. The wide appeal of this form of investment is the reason why all financial institutions are showing interest in managing and offering these funds.

- **Merchant banks**

Another aspect of the changes in the financial sector can be traced to the wave of takeovers, mergers and, in general, corporate restructurings in the United States and, to a lesser degree, in Canada. This development has generated sizeable fee revenues for the intermediaries involved, and has given rise to new types of financial vehicles which have, to a certain extent, revolutionized the markets and, at the same time, raised the general level of indebtedness and increased the world financial system's vulnerability. Québec, too, will see its share of the creation of investment banks, which have become an important element in the international financial structure. There is therefore reason to examine the various options available.

- **Financial conglomerates**

Further evidence of the recent changes in the financial sector is provided by the mergers of financial institutions of the same type, and acquisitions and equity participations between financial institutions of different types, the creation of holding companies specialized in the control of financial institutions and the takeovers of financial institutions by commercial interests.

The presence of financial conglomerates that are frequently related to business interests and, in general, takeovers of financial institutions by business interests, bring the problem of self-dealing between companies in the financial sector and those in the non-financial sector, or between companies in the financial sector that are related to the same interests, into sharper focus. This issue will be discussed at greater length in the following chapter.

- **Development of financial services distribution networks**

The arrival on the scene of financial conglomerates has, in turn, created a need for financial services distribution networks accessible to several institutions within the same group and, in view of the increasing complexity of available investment products, for expanding the array of services offered to include investment counselling and personal financial planning.

- **Innovation in financial products**

Finally, the most remarkable feature of the changes in the financial sector is undoubtedly the number of new products on the market, and the extent to which these products can be substituted for one another.

There is no need to examine in detail the advances in computer systems and communications that have revolutionized bookkeeping, invoicing, preparation of financial statements, the service distribution network and even the payment system. These advances are gradually altering the way institutions and

clients, head office and the regional or branch offices, credit unions and their federations, institutions and their auditors and the regulatory authorities deal with each other.

These innovations have had an effect in every sector. Large companies manage their debt or their cash position using a range of options extending beyond the traditional bond and equity markets, or deposits of surplus liquidity in bank accounts. Options among products and techniques for hedging against risk related to interest and exchange rate fluctuations are constantly growing, as are the means for obtaining better financing terms.

A consumer seeking a mortgage can choose from among a wide array of sources, an extensive range of maturities, fixed or variable rates. The institution making the loan cannot count on keeping its client until the end of the amortization period, since transferring a mortgage has become so easy. In addition, a mortgage can provide an excellent means of obtaining consumer credit using a "home equity loan", which is extremely popular in the United States and is gaining acceptance in Canada.

Increasingly, consumer credit itself is being granted in the form of credit cards or pre-authorized personal lines of credit.

Nonetheless, securities dealers are beginning to bolster their traditional brokerage and intermediation by adding others that closely resemble the services of deposit-taking institutions, thus further blurring the distinction between the functions of the four financial pillars. The cash management account, which

is very popular in the United States, has been introduced by a few investment dealers in Canada. Services available range from chequing to lines of credit, cash withdrawals from automatic teller machines to competitive interest rates on amounts left on deposit.

On the other hand, certain deposit-taking financial institutions now offer discount brokerage services, executing transactions under the Stock Savings Plan and taking part in securities selling syndicates.

Finally, competition between various types of institutions is becoming increasingly broad as they seek to attract personal and business financial assets, and provide financing services that are just as extensive. This development is making obsolete a large number of limitations to the direct lending and investing powers of institutions, while at the same time raising the more general problem of traditional specialization of each category of institution, or pillars as they are known.

The structuring of Québec's financial system must therefore be viewed against this backdrop of flux, internationalization of financial markets on a global scale, the rise of mutual funds, the changing role of intermediaries, creation of financial conglomerates, and a general climate of innovation.

PART III

The Québec government has four objectives in mind in revising the regulatory framework of financial institutions, which are related to its primary concerns for the health and efficiency of the financial sector. It has also observed a number of guiding principles in developing legislation and regulations for the various categories of institutions.

1- Objectives of the revision

1st objective: Ensure that Québec's financial system functions efficiently

The financial services industry is involved in seeing to the efficient operation of the system of payments and the collection and allocation of savings from economic units in a surplus position to those in a deficit position. Financial resources can be allocated directly from one unit to another, or indirectly through various financial markets, using techniques called brokerage and intermediation. Brokerage consists in a third party matching parties wishing to conduct a financial transaction, while intermediation involves the direct participation of the third party in that he establishes two contractual transactions, one with the lender and the other with the borrower.

A financial market fulfills its role efficiently if it achieves two objectives. First, it must ensure that available funds are channeled as profitably as possible, that is, that comparable investment opportunities are equally accessible, and at comparable costs. This is referred to as the allocation process of financial resources. Second, the operational efficiency of a financial market's operation refers to the relation between the

set of services offered and their cost. Here, the objective is to minimize the cost of services.

If the financial system is only moderately successful in attaining these objectives, it may hinder the efforts of households and businesses to achieve their economic objectives, and jeopardize the economy's performance. An efficient financial sector provides economic agents in every category with adequate financial services at attractive terms, in every region of Québec. This kind of efficiency is generally attained through healthy competition between financial institutions and a regulatory structure that encourages the institutions to innovate and allows them to adapt to changing financial requirements and the competitive situation.

2nd objective: Protect consumers' savings and maintain confidence in the financial system

Customer confidence is the cornerstone of the financial system. This confidence rests on a multitude of factors, but in particular on the institutions' reputation for skill and prudence in managing the funds entrusted to them, and on the quality and effectiveness of the supervision of financial institutions. Above all, then, the government must protect the savings of the consuming public.

For some twenty years now, deposit insurance has helped bolster the general level of confidence in the financial system and has been a major factor in the growth of deposit-taking institutions. Nonetheless, recent events in the North American financial sector have seriously shaken the general feeling of confidence that took root during the seventies. The bankruptcy of

several institutions in the United States and Canada as a result of imprudent management or unsound practices caused many institutions to disappear. Had the public not lost confidence in them, they could have resolved their difficulties.

These recent experiences lead us to conclude that Quebecers' confidence in their financial institutions will be maintained and strengthened by improved regulation, efficient supervision, higher standards of skill, prudence and ethics for directors and managers, and effective powers of intervention for public authorities.

3rd objective: Ensure respect for Québec's jurisdiction coupled with a concern for harmonization with federal legislation and laws in other provinces

The multiplicity of laws governing financial institutions and the division of constitutional jurisdictions and powers between the federal and provincial levels are viewed as contributing factors to the stability and vitality of Canada's financial sector[1].

Harmonization of legislations and regulations governing financial institutions under Québec jurisdiction is an important consideration in the reform envisaged. Periodic revision will be encouraged.

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1. The Senate report, Towards a More Competitive Financial Environment (May 1986), known as the Murray Report, after the Honorable Lowell Murray, Chairman of the Standing Senate Committee on Banking, Trade and Commerce, recognizes that "the existence of multiple jurisdictions can and does complicate the operations of the Canadian financial sector. However, there may also be substantial benefits in terms of flexibility, innovation, experimentation and healthy competition", page 64.

Some observers have pointed out to legislators that the current revision process could lead to a balkanization of markets in the various regions of the country caused by excessively divergent approaches to regulation.

The Québec government is conscious of this danger and has voiced its views on the issue at departmental meetings over the past two years. It will continue its work in this direction by seeking, in its own regulation, the greatest possible degree of standardization with the federal government and the other provinces. But responsibility for attaining this objective should not fall on Québec alone. The federal government and the other provinces should also work toward this end. The unilateral action recently taken by the federal government was rather negative in this regard. However, we do not feel that the risk of insufficient standardization threatening the efficiency of Canada's financial system is great enough to warrant limitation of provincial legislative and regulatory powers. The existence of financial institutions governed by provincial legislation has been an innovative element in the country's financial sector and contributed significantly to the growth of competition and improved financial services.

The Québec government will therefore zealously defend its powers and jurisdiction in the financial sector while keeping in mind the harmonization of its legislation with that of the federal government and the other provinces.

4th objective: Promote the economic development of Québec and improve financial services in the regions

In 1986, the financial sector provided 87 000 jobs in Québec, of which 42 500 were in institutions under Québec jurisdiction alone. In 1986, this sector created 5 800 jobs, placing it among the most dynamic sectors in this regard.

Pursuing the development of financial institutions is therefore a primary objective, considering their direct economic repercussions alone. The measures adopted with a view to encouraging the development of an international financial centre in Montréal are a step in this direction.

But the financial sector's indirect contribution to economic development, through its role in financing economic projects in the other sectors, is even more important.

Recent experience has shown how, through fiscal measures such as the Québec Stock Savings Plan and flow-through shares or through specific programs such as Corvée habitation, farm loans, the various financial support programs of the Société de développement industriel and the role of the Caisse de dépôt et placement du Québec, the Québec government managed to contribute both to economic development and the development of financial institutions by allowing the latter to participate in the financing of economic projects.

The success of the Québec Stock Savings Plan and flow-through shares can be measured in a number of ways. For business firms which took advantage of them, these capitalization programs opened up a profitable source of financing and development which few of them had dared use up to that time. For brokers and the Montréal Stock Exchange, the success of these programs spurred a significant growth in activities and major gains in relation to other Canadian money markets; the securities sector showed the strongest growth in jobs in 1986 of all financial sectors. Finally, for Québec investors, these programs provided an opportunity to become familiar with stock

investment and consequently reduced the traditional lagging behind of Quebecers in this area.

The success of Corvée habitation was due to the combined contribution of Québec financial institutions and a significant recovery in economic activity. Farm loans, which were previously funded from public monies, are now mainly provided by financial institutions and guaranteed by the Office du crédit agricole. The same holds true for financial assistance to small businesses granted under the program of the Société de développement industriel.

This perspective is also present in the revision of legislation concerning financial institutions. The government has resolved to continue using all its powers, including its power to regulate financial institutions, to increase the contribution of financial institutions under its jurisdiction to the development of the Québec economy.

Moreover, no serious deficiencies have been noted as far as accessibility of financial services in Québec is concerned.

In certain respects, the various regions in Québec and the saving and borrowing public are better served than similar regions and groups in other provinces and in the United States. In large measure, this is attributable to the network of credit unions, which is unique in North America and is an effective complement to the network of bank branches and specialized institutions established here as in other parts of Canada. However, there is still room for improvement. Many regions hare access to a limited number of institutions, while

certain services are only available by travelling unreasonable distances. Some borrowers, in particular farmers and some small businesses, find it more difficult to satisfy their financial needs. Briefly, then, a network of dynamic institutions with adequate powers and subject to an up-to-date regulatory structure is the surest way to achieve this objective.

2- Guiding principles of the reform

1st principle: Permit decompartmentalization through subsidiaries while preserving the distinctive nature of institutions, related to a principal activity

Decompartmentalization is one of the major elements of the reform of the regulatory structure of financial institutions and financial services. Technological developments in the financial sector, the growing influence of foreign financial markets, in some of which barriers have long been a thing of the past, and possibly changes in customer behaviour are exerting irresistible pressure to eliminate the traditional compartmentalization of the four pillars of Canada's financial system i.e. insurance, trust activities, brokerage and banking.

The Québec government believes decompartmentalization is a necessity. However, it can be viewed according to two models. Under the first, financial institutions would be free to carry out all financial activities directly, without distinction. An insurance company could therefore open a deposit-taking institution, enter the securities industry and develop trust services or others. This model would also apply to an investment dealer, a trust company and a credit union. The Québec government has not opted for this model.

The specific financial activities of each existing sector require particular skills and the exercise of prudence and financial standards which are sometimes incompatible. The compartmentalization of financial activities is well established within Canada's financial system and its brutal elimination would constitute a useless risk. Control and supervision of financial institutions thus bereft of their traditional distinctions would be more difficult.

Québec has chosen a different approach which consists in limiting each institution to a principal activity in one of the four specific fields, while granting it limited complementary powers to carry on certain activities proper to other areas and, in particular, allowing the acquisition of subsidiaries carrying on other financial activities.

In this way, an institution may develop a complete range of financial services through a network of directly held subsidiaries or linked by a financial holding company. However, each unit of the group will continue to be subject to a specific regulatory structure and to appropriate rules of the game and financial standards.

2nd principle: Control transfers of ownership without restricting the ownership of financial institutions by financial groups having business interests

Another major theme of the current debate is the ownership of financial institutions. Three aspects of the issue deserve particular attention: large holdings of voting stock of financial institutions, ownership of financial institutions by business interests and ownership by non-residents.

Trust and loan companies and non-mutual insurance companies are usually owned by a majority, if not a single, shareholder. Over the past ten years, several Canadian financial institutions have been acquired by diversified financial groups with major interests in the commercial and industrial sectors. The view has been voiced that concentration of ownership is at the root of the problems faced by certain financial institutions over the past few years. Control of financial institutions by business interests is seen as a threat to the security of such institutions because of the potential for self-dealing.

Despite these dangers, made tangible by certain recent examples, we must not lose sight of the fact that the majority of limited-ownership institutions have demonstrated sound, effective management. Moreover, major shareholders, when they are important financial groups as is often the case, provide the institution with a guarantee of considerable financial support and additional security for clientele. **Québec does not intend to favour any particular type of ownership nor to impose limits on the ownership of financial institutions, notably by financial groups involved in business activities.**

The Québec government holds the view that the different financial structures, whether their ownership is closed or open, and whether they have business ties or not, have a role to play in ensuring the economic development of Québec and Canada all the more so since restrictive regulations would unduly favour only one type of the foreign financial institutions which would from that point on be welcomed in Canada. However, the government clearly intends to do what is necessary in terms of legislation and regulation to allow, on the one hand, to a certain degree

and under to certain conditions, any self-dealing that would promote a beneficial synergy among companies of the same group and, on the other, to signal any self-dealing that might place the financial health of these same institutions at risk.

In this way, it is hoped that self-dealing, whether involving large shareholders, affiliated companies or any associated natural or legal person, will be severely restricted and subjected to rigorous self-regulation by institutions.

Québec intends to carry on the control it exercises over transactions affecting a large part of an institution's shares. Above all, transactions which would result in a transfer of control of the institution to new interests will be subject to prior approval by the Minister. Moreover, current restrictions on the control of Québec financial institutions by non-residents will be maintained for the time being. Nonetheless, it will now be possible for non-residents to incorporate insurance and trust companies and to be their major shareholders. It should also be noted that there are no restrictions on the ownership of brokerage firms dealing in securities.

Thus, Québec intends to continue encouraging and supporting the affiliation of its financial institutions. Given the competition from international financial groups and their enormous size, it seems inappropriate to worry about the size and/or concentration of our own financial institutions. It is in Québec's interest that very large groups be formed in the province and/or that they develop from existing institutions.

In any event, Québec's policy objectives should be:

- to further encourage the growth and development of financial institutions under Québec's jurisdiction;

- to prompt financial institutions under jurisdictions other that Québec's to apply for a Québec charter, either for all or part of their operations, or to move part of their operations or their portfolio to Québec;

- to ensure that control of an institution or group of financial institutions is always possible. In this regard, rules covering breadth of ownership could be issued depending on the size of the institutions;

- to see that the regulation applicable to Québec's financial sector is adequate to ensure the liquidity and solvency of firms in such a way that protection of the consumer is never jeopardized.

With this in mind, it can be expected that a general bill on holding companies will be prepared to lay out the ground rules for achieving these objectives.

3rd principle: Ensure a significant degree of self-regulation

The serious difficulties experienced by Canada's financial sector have revealed several deficiencies in the existing regulatory system and certain shortcomings in the powers and means of supervision. The Québec government will introduce a coherent regulatory structure and adapt the powers and resources of the Inspector General of Financial Institutions and those of the Commission des valeurs mobilières du Québec to ensure

adequate supervision of the application of its new regulatory framework.

At the same time, however, to avoid excessive regulation that would be cumbersome to administer, the new structure will place significant emphasis on self-regulation. Responsibility for supervision of institutions and compliance with regulations will rest primarily with the directors and administrators of the institutions and the agencies under which institutions of the same type are grouped. These agencies will be responsible for a large part of the self-regulation of their members. Certain obligations will also rest with professionals working within the institutions, particularly auditors and actuaries.

4th principle: Make possible the development of financial services distribution networks

One of the major benefits of decompartmentalization, both for institutions and users, is the distribution of products and services by all the branches of all the financial institutions affiliated with the same group. A common distribution network will enable a financial group to increase the profitability of its network of branches by offering a wider range of services through the same infrastructure. From the consumer's point of view, branches belonging to the same network can offer, in one place, all the services he needs. This benefit will be of particular importance in outlying regions where certain financial services are not frequently available.

Several financial groups have already taken the initiative of developing such networks. However, the potential is limited

given the existing regulatory structure, which was designed for a compartmentalized financial sector.

Participation in a network will not be restricted to members of financial group. Independent institutions may also, through agreements with other institutions, obtain wider distribution of their products and offer their customers products and services of other institutions to which they are linked through agreements.

Subject to the appropriate standards of competence, the accumulation of permits or registrations will be authorized in Québec. In addition, under certain conditions and according to clearly defined regulations, the sharing of fees will be permitted.

Decompartmentalization of financial intermediaries is therefore a corollary of the same process at the level of financial institutions generally. However, as in the case of financial institutions, decompartmentalization of financial intermediaries, while encouraging the distribution of financial services, will also increase the risk of loss to consumers.

The new regulations will be concerned with two risk factors in particular: risk of conflict between the needs of consumers and the intermediary's interest in selling more lucrative products and services, and risks related to the skill of intermediaries in each service sector in which they are active.

PART IV

What is at stake in the reform in Québec

As part of the consultations held between the federal and provincial governments concerning the reform of the laws governing financial institutions, Québec has already made its position clear with respect to the major aspects of the reform.

In particular, Québec is seeking to allow financial institutions greater flexibility in adapting to the new competitive environment on national and international financial markets, to reinforce the confidence of investors and consumers in their financial institutions, and to improve the effectiveness of supervision and control by public authorities. The reform instituted by the federal government appears to pursue the same objectives.

However, the Québec government intends to retain its jurisdiction concerning financial institutions, while promoting cooperation with the federal and provincial governments, in particular, by standardization, as much as possible, of information disclosed by financial institutions, exchange of information among supervisory authorities, harmonization of legislation and, when required, joint inspections of institutions active in more than one province.

As we have already mentioned in regard to decompartmentalization, Québec has always made the distinction, in its legislation governing financial institutions, between the principal activities which characterize an institution and complementary or accessory activities which do not detract from the institution's principal function. The distinction is present in the

1984 revision of the Act respecting insurance. From this perspective, a continuation of the existing structure of the financial marketplace based on the "four pillars" can be reconciled with decompartmentalization of financial activities through the use of subsidiaries. Indeed, diversification of activities through the ownership of subsidiaries is already a fact in Québec, and has given rise to large financial groups.

Concerning the activities which financial institutions may carry on, Québec favours a flexible approach to commercial loans, provided these powers are framed within an appropriate protection system. Moreover, with respect to supervision and control, there has been frequent mention, at federal-provincial consultations, of the importance of introducing effective controls for situations of conflict of interest and the importance of increasing the role and responsibilities of managers of financial institutions and the professionals they rely on. Québec has already begun introducing such provisions in its revision of the Act respecting insurance and the regulation of the Deposit Insurance Act.

In fact, as we have already pointed out, Québec began the reform process in 1982 with a revision of the Securities Act, followed in 1983 by the creation of the Inspector General of Financial Institutions, in 1984 by the revision of the Act respecting insurance and, during 1984 and 1985, amendments to the Deposit Insurance Act and its regulation. Still, much remains to be done.

The Trust Companies Act, which will also embrace mortgage companies, and the Savings and Credit Unions Act must be passed

by the National Assembly as soon as possible. Amendments to the Act respecting insurance and, as explained later, the Securities Act, are also required.

Our short-term objective is, therefore, to make the changes needed, integrate them into the Québec government's economic policy, and promote the development of Québec's financial institutions while ensuring the protection of the consumer public. The government will be promoting the development of our financial sector in an atmosphere of openness and flexibility, with no imposition of set formulas of growth on the institutions.

The reform process is already under way; its general characteristics in each sector of activity may be described as follows:

a) <u>Trust companies and savings companies</u>

- Current situation

The current Trust Companies Act dates back to 1913 and has undergone only minor amendments. It governs the formation of trust companies, their activities in managing the assets of others, and establishes an annual registration system and an inspection system. However, it suffers from a number of shortcomings, particularly with respect to the system of corporate law applicable to trust companies, the activities they carry on and the system of supervision and control to which they are subject.

More than half of all trust companies were incorporated during the first half on the century under special acts whose obsolete provisions take precedence over those of the general legislation.

The initial capitalization required was set at $1 million in 1974, and has not been adjusted since.

There is no control over the transfer or attribution of large blocks of stocks, nor over the transfer or appropriation of control of the company. Special legislation is required to prevent a trust company from passing into the hands of someone who does not have the integrity or skills required to manage other people's savings. In addition, there is no limit on the amount of capital held by non-residents of Canada.

In addition to their traditional activities of managing the assets of others, trust companies have developed financial intermediation activities which consist in accepting deposits from the public, and making loans and investments. Current legislation does not cover these newer activities which, for most trust companies, have become more significant that the traditional activities which, in some cases, are no longer carried on at all.

Trust companies have also diversified by moving into the financial services market, and carrying on activities such as, leasing, issuing debit or credit cards, selling lottery tickets and transportation tickets, selling savings plans which must be registered under the tax laws, and providing limited brokerage or investment counsellor services. In addition, they have

moved into specialized and complementary fields by acquiring subsidiaries carrying on activities in real estate, mutual funds, mutual fund management and counselling, and leasing. Current legislation is silent in regard to all these activities and trust companies' ownership of subsidiaries.

As we have seen, trust companies are increasingly directing their activities towards the commercial lending market to strengthen their competitive position compared to other financial intermediaries, in particular the banks. Current legislation does not set any conditions on trust companies moving into this market which is generally seen as more demanding insofar as financial resources and expertise are concerned.

Finally, existing legislation is silent regarding the sale of products of other financial institutions through a network, and regarding possible authorization for a company to carry on other activities. The existing regulatory structure is thus inappropriate and lacks flexibility to deal with decompartmentalization of financial markets.

Precautionary and monitoring mechanisms in its supervisory function must be improved, despite the current stability in Québec's financial institutions.

Indeed, a trust company, whether chartered in Québec, another province or another country, can only carry on business as a fiduciary in Québec if it is registered with the Inspector General of Financial Institutions. However, as there is no requirement, for registration purposes, that the applicant demonstrate that the public will benefit from the establishment

of a new trust company, as required for a company incorporated in Québec and as there is no requirement that the applicants have the skills necessary to fulfil the duties of a trust company in a manner worthy of public confidence, as is also required for a new company incorporated in Québec, it is easier for interests outside Québec to enter the market in this province than for interests based in Québec to form a new company here.

Moroever, under the existing legislation, registration, the associated requirements and the general legal framework apply to trust business. All financial intermediation activities resulting from the issue of debts (deposits) to the public and for whose reimbursement and interest thereon the trust company pledges its solvency, are not covered by the law. By this very fact, lending, investment, liquidity and indebtedness standards are lacking.

As for self-dealing, the current legislation prohibits transactions between trust companies and any persons closely associated with the company. However, this prohibition applies only to directors, shareholders holding more than a 25% interest and their families, and corporations they control. It does not cover managers and other representatives or agents of the company. It also applies only to lending and investment transactions, and not to service or management contracts, purchase or sale of assets, or even to the acceptance of deposits at attractive terms. This prohibition can be easily lifted under the provisions of the deed of trust or the mandate entrusted to the company.

The legislation, then, contains no specific control provisions for situations in which the interests of the trust company conflict with those of its clients.

Finally, as with all other statutes governing financial institutions, the legislation fails to specify the supervisory role of either the auditor or the board of directors. Powers of inspection and the powers of the Inspector General of Financial Institutions to demand information do not extend to subsidiaries of the company or to other corporations which are part of the same group as the trust company. As a result of this weakness, an appreciation of a trust company's financial position involves a significant element of uncertainty.

Savings companies, also known as loan companies, are companies with the power to receive deposits of money for the purpose of lending and making investments, and which carry on their activities in Québec. A number of these companies based outside Québec already conduct business in Québec and will be able to do so in the future.

Savings companies and trust companies have a common role as financial intermediary which consists in accepting funds from the public for the purpose of lending and making investments. Other jurisdictions in Canada apply a single statute or statutes that are nearly identical, in regard to financial intermediation, to these two types of companies.

Unfortunately, Québec has as yet no general legislation covering savings companies and the Trust Companies Act does not cover financial intermediation activity, which may explain the very small number of savings companies chartered in Québec.

The corporate regime applicable to savings companies is the one provided under the Companies Act, or of the special act under which it may be incorporated.

The Inspector General of Financial Institutions, on behalf of the Régie de l'assurance-dépôts du Québec, supervises and controls such companies, including those based outside the province, doing business in Québec.

- **Action plan**

An in-depth reform of the Trust Companies Act is necessary. Industry representatives met in the spring of 1987 to discuss this matter.

The main aims of the bill are to:

- increase the financial powers of companies. Given the previously described context of change and competition, it becomes necessary to grant companies additional powers in the areas of business and personal loans, leasing, letters of credit and guarantee, and annuity contracts. They must also be allowed to act as investment brokers and counsellors to offer other financial institutions products and to carry on other activities with the prior authorization of the Minister;

- include trust and loan companies in the same Act;

- modernize the corporate structure;

- strengthen internal and external control and supervision mechanisms in order to ensure that institutions remain solvent and the public's savings are protected.

This bill will be tabled in the National Assembly in the fall of 1987.

b) Credit unions

- Current situation

A brief look at history shows that despite many attempts, Alphonse Desjardins was unsuccessful in obtaining favourable federal legislation for caisses populaires.

In 1900, two months before the Caisse populaire de Lévis was founded, Alphonse Desjardins outlined a general bill to the federal Minister of Justice. The Minister refused to sanction it. Subsequently, from 1903 to 1906, Alphonse Desjardins again approached federal authorities. In 1904, he received support from the Governor General of Canada, Earl Grey, but was unsuccessful with other federal authorities.

In 1908, the House of Commons unanimously passed a bill which the Senate, however, refused to approve. Again, from 1910 to 1915, Alphonse Desjardins failed on several occasions to obtain appropriate federal legislation.

Finally, the Québec government took the initiative in 1906 and passed legislation governing cooperatives, providing a legislative structure for credit unions. However, these credit unions only became financial cooperatives in 1963, when the Savings and Credit Unions Act was passed.

Since then, the legislative structure of these institutions has not kept pace with developments in the internal structures of the sector, the expertise they have acquired over the years, the numerous and complex financial innovations which have profoundly changed many markets and, in short, with the growth in the relative importance of credit unions in Québec's economy.

At a strictly legal level, there is an inconsistency between, on the one hand, the actual market situation, the operation of the institutions, the activities they carry on, and, on the other, the legislation governing them. Even if the legislation is not called into question, many of these provisions should be brought up to date, if only to maintain their original normative character.

- **Action plan**

The aims of draft legislation have already been discussed with representatives of the cooperative movement. The proposed reform's main goals are to:

- modernize the cooperative corporate structure in keeping with provisions of the 1982 Cooperatives Act and developments in corporate law generally without changing the nature of the movement;

- adopt and rationalize credit union powers concerning loans and investments, taking into account standards in effect in competing financial institutions;

- legalize self-regulation and increase public supervisory authority;

- define and raise financial standards;

- establish adequate regulation for disclosure and auditing;

- delimit the sector of activity of savings and credit unions as such and as a financial network;

- set bench marks for federations in order to ensure the financial stability of the entire movement;

- establish a clear distinction between financial and non-financial institutions so as to minimize conflicts of interest;

- establish more permanent capitalization.

In addition to protecting savings, these reforms should allow the smooth development of credit unions, which are located throughout the province and have contributed significantly to Québec society.

Intensive consultations on the proposed revisions are continuing with those concerned and should lead to a bill than can be tabled in the National Assembly in the fall of 1987, or, at the latest, in spring 1988.

c) Insurance

- Current situation

In 1984, to enable its institutions to continue to develop, Québec expanded the powers of insurance companies chartered in Québec, both in regard to investments and other activities they could carry on. However, the expanded powers in regard to investment rules, replacing qualitative criteria with the notion of prudent management, were paired with increased powers for the Inspector General of Financial Institutions and the requirement, for insurance companies earning more than 2% of their income from activities not directly related to insurance, of forming, at the Minister's request, subsidiaries whose activities would be supervised and controlled according to the standards and rules applicable to such activities. As a result, powers are never expanded to the detriment of the nature of the insurance company. The additional powers are clearly complementary and when they do not satisfy this definition, must be exercised by subsidiaries.

Québec's approach in 1984 seems to have set the pattern since in 1986, both the federal government and Ontario announced measures in regard to the powers of financial institutions that are substantially the same as those in Québec. This also applies to the control and supervision mechanisms for financial institutions.

In any event, what has been the effect of Bill 22, passed in June 1983, on companies chartered in Québec? There are a number of aspects to the answer to this question.

First, it must be said that while life and health insurance companies chartered in Québec are, in general, large institutions, they do not all have sufficient resources to move into fields of activity other than those in which they are specialized.

Also, some companies may have encountered, in the lack of standardization of control and supervision measures, both in regard to investment accounting and reporting of operating results, a major obstacle to expansion into other fields of activity, which is allowed in Québec.

General insurance companies, for their part, have not diversified their activities because of the cyclical nature of their business and, more specifically, because of their poor results in recent years and their large liquidity requirements for disbursement matching purposes. At most, they have benefited from the new investment rules, which is a considerable gain.

- **Action plan**

Amendments to Act respecting insurance are urgently needed to maintain the advantages currently enjoyed by Québec's insurance companies and coordinate the control and supervisory powers of the Inspector General of Financial Institutions with those proposed by the federal government. It is also necessary to correct certain application problems identified since Bill 22 was passed in June 1984 and situations resulting from changes in the insurance industry.

The basic principles behind the proposed amendments will be discussed with the main groups concerned before the bill is tabled in the National Assembly so that their remarks and suggestions may be considered. The ultimate goals will remain the same, namely, consumer protection and development of Québec insurers. Québec insurance companies must maintain and increase their market share both in Québec and elsewhere in Canada and abroad.

The main amendments to the Act respecting insurance in Québec may be classified in three categories:

1- opening of the insurance market to foreign capital;

2- harmonizing Québec legislation with proposed amendments to federal laws applicable to Canadian and foreign insurance companies;

3- simplifying the administration of the Act and providing technical clarification.

Present regulations limiting non-residents of Canada to acquiring individually 10% and collectively 25% of shares in an existing Québec company will remain unchanged. Henceforth, however, it will be possible for foreigners to incorporate insurance companies in Québec and retain control.

In order to coordinate Québec's Act respecting insurance with proposed amendments in federal legislation, the following amendments should be adopted so as to:

- provide regulations setting out standards governing reinsurance by insurance companies;

- lay down rules for the payment of dividends by insurance companies with insufficient capitalization or accumulated financial surplus;

- lay down the Inspector General's powers to intervene and enforce his directives through injunctions.

To simplify administration of the Act and ensure adequate sharing of control and supervision of companies, the following amendments appear necessary:

- allow the Inspector General to accept a company's certificate of regularity and solvency issued by the supervisory body responsible for the said company at the time of the issue or renewal of a license for an insurer chartered outside Québec, without relinquishing the Inspector General's right to carry out his own evaluation if he deems it appropriate;

- re-evaluate company investment standards in order to better distribute percentages allocated to development and assets likely to appreciate, such as stocks and real estate;

- allow the Inspector General to order a valuation of the reserves and assets shown in an insurer's annual report;

- reformulate the requirements of the Act respecting insurance for the various reports that the Inspector General must produce, in order to avoid duplication;

- as a follow-up to the May 20, 1987, decision of the Conseil des ministres, allow life and health insurance intermediaries to create a self-regulating body, along with the necessary operating and funding mechanisms;

- update regulatory powers;

- define mechanisms for "de-mutualization".

All these changes will be proposed in a bill to amend the Act respecting insurance that will be tabled in the National Assembly in the **fall of 1987.**

d) Securities

- Current situation

In the securities sector, Québec has long since implemented the essential elements of the reform recently introduced in Ontario.

In 1973, the decision was taken not to impose restrictions on the entry of foreign dealers into the province. The 1982 revision of the Securities Act made provision for regulatory power regarding access by foreign dealers, but since then the government has not deemed it advisable to introduce restrictions.

Concerning the ownership of firms and the carrying on of securities-related activity by a financial institution, again, the 1982 revision to the Securities Act included no restriction in

this regard. In 1983, following public hearings into the matter, the Commission des valeurs mobilières du Québec decided the public interest did not require placing restrictions on the ownership by a financial institution of a significant portion of the capital of a brokerage firm, or on the carrying on by such an institution of securities-related activities.

Since 1983, a dozen or so financial institutions have registered with the Commission as restricted practice dealers. However, financial institutions and foreign dealers have taken but little advantage of the existing deregulation measures. This is largely attributable to the fact that Ontario and the Montréal and Toronto stock exchanges, whose regulatory structures are generally accepted as the standard in Canada, continued to maintain restrictions concerning foreign dealers and the participation of financial institutions.

In November 1986, the Bank of Nova Scotia registered a subsidiary with the Commission des valeurs mobilières as an unrestricted practice dealer. This focused attention on the originality of Québec's regulations, since Ontario did not allow a financial institution to own more than a small percentage of a dealer's capital. On the other hand, at that time, the federal government had yet to make public its position on expanded securities-related activity by banks and institutions under its jurisdiction.

In many respects, the new policies announced in December 1986 by the federal and Ontario governments were designed to introduce a reform that had already been accomplished in Québec. Still to be settled are the questions of jurisdiction related to securities- related activities of federally-regulated institutions.

Moreover, Québec has always joined forces with the other provinces to establish standardized regulations so as to ensure the smooth operation of financial markets. For example, negotiations between the provinces since 1983 led to the passing of the Act modifying the Securities Act in June 1987. This in turn led to Québec's establishing a standardized regulation plan governing takeover bids.

- **Action plan**

However, recent federal proposals designed to broaden the scope of securities activities by federally regulated financial institutions will require particular attention.

In regard to reforms for federally regulated financial institutions, the government of Canada is proposing broader powers for these institutions to deal in securities. This means that banks, trust companies and insurance firms would be authorized to carry out certain securities-related transactions as well as manage portfolios and provide investment counselling. Institutions could choose to carry out these activities either within the institution itself, in which case they would be subject only to federal regulation, or by means of a subsidiary, which would be subject to provincial regulation. The underlying principle of this position is that the fact that a financial institution is regulated in some respects by the federal government should not dictate that it be subject only to federal regulation in all respects.

On this basis, the federal government and the government of Ontario last April worked out an agreement that was opposed by

all other provinces, including Québec. This agreement includes the following features:

- recognition in fact by Ontario of a measure of federal jurisdiction in the area of securities;

- acceptance by Ontario of the fact that federally regulated institutions will be able to manage portfolios and provide investment counselling services without being subject to provincial regulation normally applicable, insofar as this activity is carried out within the institution and not by means of a subsidiary;

- limited expansion of the exempt market, accompanied by a transfer of control to the federal government over this expanded exempt market.

Québec is in favour of dialogue with the federal government and consultation with the provinces, but it wishes the respective areas of jurisdiction to be respected. This agreement could not therefore be based on the basic principle of the compromise worked out between the federal and Ontario governments.

Québec wishes to continue responding to needs created by the transformation of financial institutions, as it has been for several years. The province also wishes to avoid disputes which could paralyse or hinder the development of financial institutions. Québec nevertheless believes that these objectives can be achived without relinquishing its responsibility for the securities sector, which is an important factor in its economic development.

Québec reaffirms its position, which hinges on the four following principles;

1- Québec does not wish to relinquish its responsibility for securities, whether for investment counselling activities and portfolio management, or for the non-regulated market, with the result that the agreement between Ontario and the federal government cannot be used as a model framework;

2- Québec will continue to promote and endorse consultation between the provinces and continued dialogue with the federal government on regulations governing securities activities by federally regulated financial institutions;

3- Québec wishes to retain an exempt market in existence without having to relinquish its responsibility for this market. Québec believes there is reason to harmonize the exempt market system among the various provinces;

4- Québec continues to maintain that, given the interest of foreign institutions in establishing businesses in Canada, the federal government and the provinces should consider engaging consultation between all the provinces with a view to facilitating the entrance of foreign securities companies into the Canadian market. The general rules governing foreign access to Canadian markets should be unpreferential compared to the provinces, and should be implemented following negotiations between the federal and provincial governments. However, registration of foreign securities companies and the terms governing registration will fall under provincial jurisdiction.

The second area of change affecting securities is the revision of the Securities Act. Under section 352 of the Act, "the Minister shall, on or before January 19, 1988, and every five years thereafter, make a report to the government on the implementation of this Act, on the advisability of continuing it in force and, as the case may be, amending it ...".

The Commission du budget et de l'administration de l'Assemblée nationale du Québec tabled a report in June 1987 entitled "Examen des orientations et de la gestion de la Commission des valeurs mobilières du Québec". The Parliamentary budget and administration committee examined several subjects including economic regulation, delegation and self-regulation.

Concerns of parliamentarians and the financial world will be taken into consideration.

A report under preparation will be submitted in accord with the timetable set forth in the Act and will be followed in 1988 by a bill amending the Securities Act.

e) Financial intermediaries

- Current situation

The existing regulation of financial intermediaries is designed for a compartmentalized system which still obtains in most sectors, even in the case of insurance, where Québec has already removed regulatory barriers for companies, particularly life insurance companies. In the case of intermediaries,

decompartmentalization is not yet fully achieved. There are many intermediaries operating in a variety of different specialties. They have formed associations to promote excellence and rules of professional ethics. The rules governing them date back to a period when exclusivity of practice was the counterpart of the separation of financial institutions among the four pillars.

Clearly, if the objectives stated in Bill 22 in June 1984 are to be achieved, a reform of the regulatory structure for intermediaries must be undertaken as soon as possible. The activities of intermediaries are also regulated in the securities sector. However, the interpenetration of financial markets and the development by other institutions of investment products and services, mutual funds, QSSPs, RRSPs, and portfolio management services raise the need for rethinking certain rules.

- **Action plan**

In the wake of decompartmentalization, no means was provided to keep track of the evolution of companies and adapt to a new context, except in the case of life insurance agents or life and accident-sickness insurance agents. In September 1986, the Québec government passed a regulation to amend the Regulation respecting the application of the Act respecting insurance which enables life insurance agents to obtain a licence allowing them to deal in group savings, university scholarships and Québec and Canada government savings bonds, in addition to their usual accident-sickness life insurance. It should be mentioned that these agents can also hold a licence in property damage insurance.

Clearly, institutions and intermediaries must have efficient ways of offering the public quality products and services that reflect the increased competition on the market, the establishment of financial institution networks, new sales and marketing methods and rules governing jurisdiction and conflict of interest.

A sales network means the provisions, regardless of type, agreed upon by financial institutions to offer the investing public a line of financial products or services through a financial institution, their brokers or their representatives.

For the consumer of financial products and services, sales networks have many advantages, such as:

- greater access to products and services;

- potential lower costs for services and products;

- greater availability of financial products and services in regions where few financial institutions are located.

Current regulation is not however designed to allow the saving public to benefit fully from the advantages of sales networks.

Regulations must thus be established or changed so as to:

- decompartmentalize intermediaries so that networks can be established and develop;

- set up a framework for sales networks so that their development does not harm the interests of the saving public.

The main elements of the framework for the control of intermediaries hinge on these issues:

1- self-regulation of control and supervision with participation by all parties concerned;

2- a review of the distribution system based on consumer needs and new avenues opened up by decompartmentalization of institutions. In this respect, a possibility that should be considered is the promotion of multidisciplinary teams and the development of a method of commission sharing, with appropriate measures taken to ensure that the public is offered quality services and protected from abuses and conflicts of interest;

3- a ban on tie-in sales and requirements for all financial institutions to disclose the price of each of the products and services offered, thereby ensuring that financial institutions are required to offer consumers the option of purchasing products separately;

4- disclosure of ties. A financial institution would be required to tell consumers of its ties with another financial institution, a disclosure that would enable consumers to evaluate the institution's intereresets in suggesting a purchase of another institution's product;

5- simultaneous holding of licenses or registrations for representatives acting for institutions and meeting the standards for competence. For an institution's representative, accumulation of licenses or registrations would be authorized;

6- authorization of commission sharing under certain terms and in accordance with specific rules.

Furthermore, the revision of the control structures for intermediaries, set for 1988-1989, should take into account the government's intentions to turn over to private enterprise those activities that it can adequately administer, develop and operate.

f) Financial planning

The unbridled increase in financial planning that has been taking place in recent years stems from the creation of a myriad of new products, growth in the real estate sector, a rise in securities activities and, finally, new, multidisciplinary financial services.

A large number of financial planning consultants now come from all financial service sectors: banks, trust companies, life insurance companies, stockbrokers and other professionals. The decompartmentalization of activities will henceforth bring financial planning into widespread use. The new multidisciplinary characteristic of financial services means that agents can offer financial planning services to the consumer as well as their traditional services.

Intermediaries offering financial planning services can be divided into three categories:

1- the "independent" financial planning consultant, whose earnings are based solely on advisory services provided;

2- the financial planning consultant who, as well as acting as an advisor, promotes particular financial products (group investment and insurance, etc.) and whose earnings are often based solely on a commission on products sold;

3- professional association members who offer financial planning services as well as services stipulated by their particular professional association.

At the moment, most of this activity is completely unregulated because it is not directly attached to any of the four regulatory sectors of the financial system. This activity does, however, raise various problems. In the first place, those who represent themselves as financial planning consultants must satisfy no criteria as to their skill, contrary to the situation in the various financial sectors. Second, such consultants are frequently in conflict of interest situations, without their clients' knowledge, for instance, because they do not disclose the fact that they earn remuneration from the sale of the products they recommend to their clients. Finally, since the activity centres on investing the customer's savings, the absence of controls may lead to undesirable situations.

Following joint public hearings (Québec, Ontario and Alberta) in April 1986, the Commission des valeurs mobilières du Québec pinpointed all such problems. Clearly, we should question the need to regulate this activity to define standards of competence and integrity, establish a professional code of ethics, particularly in regard to conflicts of interest, and to implement anti-fraud mechanisms.

However, a number of complex questions must first be examined: what will be the role of self-regulation? How can this regulation be integrated with the various systems of regulation already in effect for various aspects of this activity? Which authority will be responsible for enforcing this regulation?

CONCLUSION

This reports sets out the orientations and the means whereby the Québec government intends to assist Québec's financial institutions and their associated intermediaries to adapt to the environment in which they will be working in the coming decades.

Québec's financial sector displays a vigour and originality that contrast sharply with the rest of Canada and all North America. The presence of various institutions throughout Québec's regions provides healthy competition and a variety of services for all client groups with the result that, from a financial viewpoint, our province is one of the most efficiently served.

This accomplishment was made possible by Quebecers' innovative spirit, but also by progressive legislation designed to facilitate the development of institutions at various turning points. We are now entering an era of rapid evolution in the financial system, and the Québec government intends to proceed with an in-depth review of its legislation to allow financial sectors to adapt to the unprecedented changes taking shape in the financial industry. The government also intends to ensure that Quebecers enjoy adequate financial services without compromising the protection of their savings.

This goal, however, cannot be achieved by the government alone. Institutions, intermediaries and members of the securities sector must also shoulder their responsibilities. They must rise to the challenges, find ways to break into new markets, maintain the share they already hold and keep abreast of competition that is becoming more and more intense both nationally as well as internationally.

CONCLUSION

For its part, the Québec government is committed to supporting them in this venture through the reform of its laws, regulations and administration. This can only be accomplished with open, on-going discussion among all parties. By publishing this report on policy thrust and legislation objectives, the government is showing that it intends to continue doing its part in helping develop the financial sector and hopes that the response from the financial community will prove equal to this effort.

STATISTICAL APPENDIX

TABLE 1

Financial institutions Carrying on Business in Québec in 1986

(excluding investment dealers)

	Number	Total Assets ($'000)	Branches	
			In Québec	Outside
Incorporated under Québec laws				
Trust companies	16	12 450 431	114	45
Loan companies	1	61 300	2	2
Credit unions	1 372	23 909 100	1 372	*
Caisse centrale Desjardins	1	2 415 555	1	1
Sociétés d'entraide	4	595 913	43	*
General insurance companies	21	1 018 200	*	*
General insurance mutuals	46	81 414	*	*
Life and health insurance companies	15	3 704 388	*	*
Mutual benefit associations	17	61 017	*	*
Funeral associations	6	9 200	*	*
Total Québec	**1 499**	**44 306 518**	**1 532**	**48**
Incorporated under other jurisdictions				
Trust companies	18	34 056 039	25	386
Loan companies	8	19 835 001		
Credit unions	*	*	*	1 688
General insurance	204	19 003 991	--	--
Life and health insurance	135	119 708 000	--	--
Mutual benefit associations	22	2 224 091	--	--
Banks	31	453 478 244[1]	1 387	5 639

* Not applicable

1. Canadian assets: $253 303 692 000

SOURCE: Inspector General of Financial Institutions
Canada Gazette

TABLE 2

Trust Companies Doing Business in Québec

(December 31, 1986)

(thousands of $)

	Assets	Under administration	Branches	
			In Québec	Outside Québec
Chartered in Québec				
Alcan Fiduciaries Limited	2 475	9 860	1	-
Banker's Trust Company	1 149	109 057	1	-
Canadian Trust Company	363	---*	1	-
Canadian Italian Trust	91 930	4 577	5	-
Montreal City and District Trustees Limited	378 521	286 645	3	-
General Trust of Canada	2 275 192	6 773 509	17	-
Trust général Inc.	12 977	---	23	-
Guardian Trust Company	442 393	514 160	3	4
Imperial Trust Company	85 383	17 291	1	-
Lombard Odier Trust Cmpany	1 046	96 798	1	-
Montreal Trust	3 756 248	7 460 281	8	40
Société nationale de fiducie	176 376	1 706 382	1	-
Fiducie Prêt et Revenu	433 559	2 809 990	8	1
Fiducie du Québec	1 297 154	10 436 920	11	-
Royal Trust Company	3 232 228	20 536 406	26	-
Compagnie Sherbrooke Trust	263 437	239 625	4	-
	12 450 431	**51 001 501**		

* Included in the amount declared by Montreal Trust Company

TABLE 2 (cont'd)

Trust Companies Doing Business in Québec

(December 31, 1986)

(thousands of $)

	Assets	Under administration	Branches	
			In Québec	Outside Québec
Federal charter or charter of another province				
Canada Trust	5 837 808	32 432 152	a	a
Central Trust Company	3 399 409	2 268 475	2	62
Coronet Trust Company	254 195	1 614	-	4
Eaton Financial Service	750 445	1 418 817	1	7
Financial Trust	980 487	-----	3	14
First City Trust Company	3 240 135	251 502	3	36
Guaranty Trust Company of Canada	4 126 710	5 437 713	3	63
Household Trust Company	521 354	71 385	1	18
Société de fiducie internationale	42 754	3 075 381	-	1
Investors Syndicate Ltd.	459 791	4 218 000	-	1
Compagnie de fiducie Marcil	2 089	667 830	1	2
Montreal Trust	3 028 557	17 167 752		
Morgan Trust Company of Canada	321 424	305 631	1	4
Morguard Trust Company	69 092	2 905 490	1	9
Société de fiducie Mutuelle	160 913	1 002 982	-	1
National Trust	9 699 262	23 575 509	7	137
Standard Trust Company	1 082 317	433 319	1	25
Société de fiducie Wellington	79 297	23 240	1	2
	34 056 039	**95 256 792**		

a: Uses branches of the parent or an affiliated company

SOURCE: Inspector General of Financial Institutions

TABLE 3

Mortgage Companies Doing Business in Québec

(not affiliated with chartered banks)

	Assets ($'000)	Branches In Québec	Branches Outside Québec
Chartered in Québec			
Royal Trust Mortgage Corporation	61 300	2	2
Federal charter or charter of another province			
Morguard Trust Company	399 388	1	9
Guardcor Loan Company	51 449	2	2
Standard Loan Company	79 907		
Granville Savings and Loan Company	75 868	-	1
Canada Trustco Loan Company	18 645 731	48	382
Central Loan and Mortgage Inc.	172 910	a	a
First City Trust Co.	194 251	a	a
Victoria and Grey Trust	215 497		
Sub-total	19 835 001		
Total	**19 896 301**		

a: Uses branches of the parent or an affiliated company

SOURCE: Inspector General of Financial Institutions

TABLE 4

Credit Unions

Fiscal Year Ending in 1986

(millions of $)

	Number of caisses	Total assets
Caisses populaires et d'économie Desjardins		
Fédération de Lanaudière	47	756.6
Fédération du Centre du Québec	132	2 177.7
Fédération de Québec	324	5 704.9
Fédération de Montréal et de l'Ouest	329	9 326.1
Fédération de la Péninsule et des Iles	42	321.5
Fédération de l'Estrie	78	1 027.9
Fédération du Bas Saint-Laurent	82	686.0
Fédération du Saguenay - Lac Saint-Jean	67	766.9
Fédération de l'Abitibi	42	293.7
Fédération de Richelieu-Yamaska	74	1 744.1
Fédération des caisses d'économie	147	844.1
Sub-total Desjardins	1 364	23 649.5
Caisses d'établissement	7	249.9
Les Mutuellistes	1	9.7
Total	**1 372**	**23 909.1**

SOURCE: Inspector General of Financial Institutions

TABLE 5

Sociétés d'entraide économique

At February 28, 1987

	Assets ($'000)	Branches	
		In Québec	Outside Québec
SEE Métropolitaine de Montréal	23 024	1	-
SEE du Québec Inc.	525 952[1]	40	-
SEE de Rimouski	25 024	1	-
SEE de Val d'Or	21 913	1	-
Total	**595 913**	**43**	-

1- At July 31, 1986

SOURCE: Inspector General of Financial Institutions

TABLE 6

Assets Held by Insurers Licensed to do Business in Québec, 1986

(millions of $ and percentages)

	Life and Health Insurance			General Insurance		
	Number of insurers[1]	$	%	Number of insurers[1]	$	%
Insurers*						
Head office in Québec						
Québec charter	38	3 765	3.1	67	1 100	5.5
Federal charter	6	3 478	2.8	16	1 218	6.0
Sub-total	44	7 243	5.9	83	2 318	11.5
Other insurers						
Charter from other provinces	4	933	0.8	8	568	2.8
Federal charter	61	99 460	80.5	67	10 998	54.8
Foreign charter	86	15 837	12.8	113	6 220	30.9
Sub-total	151	116 230	94.1	188	17 786	88.5
Total	**195**	**123 473**	**100.0**	**271**	**20 104**	**100.0**

* Companies and mutuals

1- Including companies authorized to transact both in life insurance and general insurance (2)

SOURCE: Inspector General of Financial Institutions

TABLE 7

Premiums Collected in Québec and Elsewhere in Canada by Insurers Chartered in Québec, 1986

(thousands of $ and percentages)

	Québec		Ontario		New Brunswick		Others		Canada
	$	%	$	%	$	%	$	%	$
Life and health insurance									
Aéterna-Vie	22 486	96.4	709	3.1	97	0.4	28	0.1	23 320
Industrial	231 732	81.0	49 911	17.5	2 051	0.7	2 354	0.8	286 048
Laurentian Life	155 760	94.1	8 196	5.0	1 510	0.9	69	---	165 535
S.S.Q.	164 650	99.2	712	0.4	604	0.4	---	---	165 966
Other companies	219 532	100.0	---	---	---	---	---	---	219 526
Fraternal associations and funeral associations	69 793	100.0	---	---	---	---	---	---	69 793
Sub-total	863 953	92.8	59 528	6.4	4 262	0.5	2 451	0.3	930 188
General insurance									
Bélair	37 163	95.7	---	---	1 671	4.3	---	---	38 834
Fabriques Montréal	2 087	99.9	3	0.1	---	---	---	---	2 090
Industrial General	9 259	99.9	---	---	8	0.1	---	---	9 267
Laurentian	221 524	95.3	7 128	3.1	2 559	1.1	1 235	0.5	232 446
Mutuelle d'Ottawa	317	90.3	34	9.7	---	---	---	---	351
United Provinces	71 085	99.9	72	0.1	---	---	---	---	71 157
Sociétés Nationales	26 592	93.4	---	---	1 869	6.6	---	---	28 461
Other companies	300 732	100.0	---	---	---	---	---	---	300 732
Mutuals	71 019	100.0	---	---	---	---	---	---	71 019
Sub-total	739 778	98.1	7 237	1.0	6 107	0.9	1 235	0.2	754 357
Total	**1 603 731**	**95.2**	**66 765**	**4.0**	**10 369**	**0.6**	**3 686**	**0.2**	**1 684 545**

SOURCE: Inspector General of Financial Institutions

TABLE 8

Chartered Banks Doing Business in Québec
Assets and Branches, 1986

	Canadian Assets ($000)	Total assets ($000)	Branches	
			In Québec	Outside Québec
Chartered banks - Schedule "A"				
Canadian Imperial Bank of Commerce	53 713 706	87 487 602	178	1 331
Bank of Montreal	40 485 594	86 332 427	209	984
Bank of Nova Scotia	29 458 230	66 796 883	87	928
National Bank of Canada	18 598 644	28 684 676	465	99
Royal Bank of Canada	57 780 180	102 782 324	203	1 244
Toronto Dominion Bank	34 302 530	55 187 322	86	872
Schedule "B"				
Barclays Bank of Canada	1 284 581	1 793 904	1	9
Central Bank of Canada	34 382	77 892	1	1
Chase Manhattan Bank	506 417	599 608	1	3
Chemical Bank of Canada	882 522	1 223 233	1	3
Banco Italiano Commerciale of Canada	202 275	507 807	2	6
Bank of America Canada	497 805	677 072	1	3
Bank of Boston Canada	175 212	212 039	1	1
Banque de Crédit et de Commerce	177 930	371 267	1	6
Hong Kong Bank of Canada	2 543 749	3 116 975	1	56
Bank Leumi le-Israël	79 473	149 195	1	2
Lloyds Bank of Canada	4 447 552	5 141 294	10	63
National Bank of Greece (Canada)	119 978	130 611	3	1
Banque Nationale de Paris (Canada)	926 211	1 230 431	5	6
National Westminster Bank of Canada	796 670	1 031 278	1	3
Banque Paribas du Canada	215 171	345 330	1	1
Republic National Bank of New-York	118 807	355 450	1	-
Standard Chartered Bank of Canada	380 655	441 417	1	4
Crédit Commercial de France (Canada)	210 540	323 538	1	-
Crédit Lyonnais Canada	696 809	1 065 602	1	2
Crédit Suisse Canada	277 005	859 440	1	3
Société de Banque Suisse	312 989	1 200 217	1	3
Société Générale (Canada)	518 615	799 131	1	3
Union de Banques Suisses	95 641	658 279	1	1
Savings banks				
Montreal City and District Savings Bank	3 463 819	3 896 000	120	1
Total	**253 303 692**	**453 478 244**	**1 387**	**5 639**

SOURCE: Bureau de la Statistique du Québec
Canada Gazette

TABLE 9

Mortgage Loans Extended in Québec and Market Shares Held by Institutions

(millions of $)

	1985	1986	Market Share 1985	Market Share 1986
Deposit-taking institutions				
- Chartered banks	6 655	8 179	19.5	20.7
- Savings banks	948	1 121	2.8	2.8
- Trust and loan companies	5 395	6 527	15.8	16.5
- Credit unions	10 312	11 739	30.3	29.6
- Sociétés d'entraide	357	383	1.0	1.0
Sub-total	23 667	27 949	69.4	70.6
Other financial institutions				
- Life insurers	4 018	5 219	11.8	13.2
- General insurers	47	75	0.1	0.2
- Trusteed pension funds	3 252	3 131	9.6	7.9
Sub-total	7 317	8 425	21.5	21.3
Public sector institutions				
- Québec				
. Caisse de dépôt et placement	1 258	1 506	3.7	3.8
. Société d'habitation du Québec	554	561	1.6	1.4
. Office du crédit agricole	166	147	0.5	0.3
- Canada				
. CMHC	671	582	2.0	1.5
. Farm Credit Corporation	444	423	1.3	1.1
Sub-total	3 093	3 219	9.1	8.1
Total	**34 077**	**39 593**	**100.0**	**100.0**

SOURCE: Bureau de la Statistique du Québec
Inspector General of Financial Institutions
Bank of Canada
Public institution annual reports

TABLE 10

Premiums Collected in Québec and in Canada by General Insurers Doing Business in Québec, 1986

(thousands of $ and percentages)

	Québec		Canada		Québec / Canada
	$	%	$	%	%
Insurers*					
Head office in Québec					
Québec charter*	740	24.4	754	7.1	98.1
Federal charter	441	14.6	715	6.7	61.7
Sub-total	1 181	39.0	1 469	13.8	80.4
Other insurers					
Charter of another province	118	3.9	483	4.6	24.4
Federal charter	1 153	38.1	5 995	56.5	19.2
Foreign charter	576	19.0	2 668	25.1	21.6
Sub-total	1 847	61.0	9 146	86.2	20.2
Total	**3 028**	**100.0**	**10 615**	**100.0**	**28.5**

* General insurance companies and mutuals

SOURCE: Inspector General of Financial Institutions

TABLE 11

Premiums Collected in Québec and in Canada by Life and Health Insurers Doing Business in Québec, 1986

(thousands of $ and percentages)

	Québec		Canada		Québec / Canada
	$	%	$	%	%
Insurers*					
Head office in Québec					
Québec charter	864	20.9	930	5.9	92.8
Federal charter	628	15.2	668	4.2	94.2
Sub-total	1 492	36.1	1 598	10.1	93.4
Other insurers					
Charter of another province	32	0.8	164	1.1	19.5
Federal charter	1 953	47.1	11 648	74.0	16.8
Foreign charter	662	16.0	2 322	14.8	28.5
Sub-total	2 647	63.9	14 134	89.9	18.7
Total	**4 139**	**100.0**	**15 732**	**100.0**	**26.3**

* Companies and mutuals

SOURCE: Inspector General of Financial Institutions

TABLE 12

Market Share in Each Province[1] Held by Insurance Companies Chartered in Québec, 1986

(percentages)

Provinces and territories	Life and Health insurance	General insurance
	%	%
Newfoundland	0.04	0.40
Prince Edward Island	0.07	0.29
Nova Scotia	0.09	0.04
New Brunswick	1.28	2.26
Québec	20.90	24.40
Ontario	0.85	0.16
Manitoba	0.03	n/s
Saskatchewan	0.05	n/s
Alberta	0.04	n/s
British Columbia	0.08	0.06
Yukon and N.W.T.	0.06	0.06

n/s: Non significant (less than 0.01%)

(1) Excluding the networks of insurance companies controlled by companies chartered in Québec

SOURCE: Inspector General of Financial Institutions

TABLE 13

Percentage Distribution of Premiums Collected in Canada by Insurers Doing Business in Québec, 1986

(percentages)

Provinces and territories	Life and Health insurance	General insurance
	%	%
Newfoudland	1.0	1.1
Prince Edward Island	0.3	0.4
Nova Scotia	2.2	3.0
New Brunswick	2.1	2.5
Québec	26.3	28.5
Ontario	44.7	44.0
Manitoba	3.5	1.9
Saskatchewan	2.5	1.4
Alberta	8.0	10.6
British Columbia	9.0	6.3
Yukon and N.W.T.	0.4	0.3
Total	**100.0**	**100.0**

SOURCE: Inspector General of Financial Institutions

TABLE 14

Assets and Total Capitalization of Investment Dealers by Place of Registration

(millions of $)

	Québec[2]		Canada[1]		Growth	
	1983	1986	1983	1986	Québec	Canada
Assets	n.a.	n.a.	8 574	14 489	n.a.	69 %
Total capitalization[3]	482	903[4]	602	1 393	87 %	131 %
Number	31	29	71	64	--	--

1. Based on a sample of unrestricted practice dealers. These are members of the Investment Dealers Association of Canada, which account for almost 90% of total capitalization for all unrestricted practice dealers and discount brokers belonging to one of the five self-regulating organizations in Canada.

2. Based on a sample of unrestricted practice dealers registered in Québec. These are members of the Investment Dealers Association of Canada, which account for almost 60% of total capitalization for all unrestricted practice dealers and discount brokers belonging to one of the five self-regulating organizations in Canada.

3. Includes shareholders' equity and subordinate loans.

4. At June 30, 1986.

SOURCES: Investment Dealers Association of Canada
Commission des valeurs mobilières du Québec
Statistics Canada, Catalogue n° 61-006

TABLE 15

Total Capitalization of Investment Dealers Registered in Québec[1] by Place of Control

(thousands of $)

	Québec		Other provinces and foreign		Growth	
	1983	1986[3]	1983	1986[3]	Qc.	Other
Total capitalization[2]	33 960	78 038	447 828	825 099	130%	84%
Number	10	9	21	20		

1. Based on a sample of unrestricted practice dealers. These are members of the Investment Dealers Association of Canada, which account for almost 60% of total capitalization for all unrestricted practice dealers and discount brokers belonging to one of the five self-regulating organizations in Canada.

2. Includes shareholders' equity and subordinate loans.

3. At June 30, 1986.

SOURCE: Commission des valeurs mobilières du Québec

TABLE 16

Investment Dealers[1] by Region

	Québec		Ontario		Canada		Growth		
	1983	1986	1983	1986	1983	1986	Québec	Ontario	Canada
Head offices	14	11	43	38	71	64	- 21 %	- 12 %	- 10 %
Branches	103	119	237	239	568	593	16 %	1 %	4 %
Employees	2 463	3 440	8 892	8 889	n.a.	n.a.	40 %	0 %	n.a.

1. Based on a sample of unrestricted practice dealers. These are members of the Investment Dealers Association of Canada, which account for almost 70% of total capitalization for all unrestricted practice dealers and discount brokers belonging to one of the five self-regulating organizations in Canada.

SOURCES: Investment Dealers Association of Canada
Statistics Canada (special tabulation) quoted by Sécor Inc.

TABLE 17

Shareholders as a Percentage of the Population

Québec		Ontario		Canada		Growth		
1983	1987	1983	1986	1983	1986	Québec	Ontario	Canada
7.5 %[1]	16.0 %[2]	12.3 %[1]	20.0 %[2]	9.0 %[1]	18.0 %[2]	113 %	65 %	100 %

1. Holders of common or preferred shares listed on a stock exchange or traded over the counter, age 18 or over.

2. Holders of common or preferred shares listed on a stock exchange or traded over the counter and holders of mutual fund shares, age 18 or over.

SOURCES: Commission des valeurs mobilières du Québec
Toronto Stock Exchange

Gouvernement du Québec
Ministère délégué aux Finances
et à la Privatisation